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Prairie Oil Royalties

COMPANY, LTD.

ANNUAL REPORT

1974

PRAIRIE OIL ROYALTIES COMPANY, LTD.

AND SUBSIDIARY COMPANY

COMPARATIVE SUMMARY

for the years ended December 31

Revenue [\$000]	1974		1973		1972		1971		1970	
Oil Sales	\$	194	\$	173	\$	139	\$	130	\$	116
Gas Sales		415		349		289		166		181
Royalties		665		654		552		595		544
Interest & Other		152		84		52		48		89
		<u>\$1,426</u>		<u>\$1,260</u>		<u>\$1,032</u>		<u>\$939</u>		<u>\$930</u>
Expenses [\$000]										
Production	\$	160	\$	144	\$	142	\$	81	\$	78
General and administrative		97		51		49		60		102
Depletion		354		284		246		195		182
Depreciation		50		63		57		54		50
		<u>\$ 661</u>		<u>\$ 542</u>		<u>\$ 494</u>		<u>\$390</u>		<u>\$412</u>
Earnings before Income Taxes [\$000]	\$	765	\$	718	\$	538	\$	549	\$	518
Deferred Income Taxes [\$000]		315		286		198		211		210
* Net Earnings [\$000]	\$	<u>450</u>	\$	<u>432</u>	\$	<u>340</u>	\$	<u>338</u>	\$	<u>308</u>
per share		23¢		22¢		17¢		17¢		16¢
Expenditures [\$000]										
Exploration and Property Acquisitions	\$	1,095	\$	570	\$	630	\$	939	\$	503
Plant and Equipment (Net after sales)	\$	48	\$	(39)	\$	101	\$	28	\$	(1)
Shares Issued and Outstanding		1,961,520		1,961,520		1,961,520		1,961,520		1,961,520
Dividends		Nil		Nil		Nil		Nil		Nil
Market Price Ranges of Shares [\$]	High	Low	High	Low	High	Low	High	Low	High	Low
American Stock Exchange 1st Quarter	11 3/4	6 3/4	13 3/8	9	15 3/4	10 5/8	17 1/2	10 1/8	18 5/8	9
2nd Quarter	7 1/8	4 5/8	9 3/8	6 1/8	15 1/4	11 5/8	16 5/8	13 1/4	11 3/8	6
3rd Quarter	5 3/8	3	8 3/4	6 1/4	13 1/2	11 3/8	16 1/2	12 5/8	13 3/8	6 3/8
4th Quarter	5 1/8	2 1/4	11 3/4	5 3/8	13 5/8	11	13 3/4	8 3/4	13 3/4	10

* Effective January 1, 1974 the Company adopted the deferred income tax method of accounting and prior years' earnings have been restated.

Directors' Report

TO: THE SHAREHOLDERS

DESCRIPTION OF BUSINESS

Prairie Oil Royalties Company, Ltd. and its subsidiary company (hereinafter collectively called the "Company") explore for, develop, produce and sell crude oil, gas liquids

and natural gas in Western Canada. Reference is made to the comparative summary for the five years 1970 through 1974 shown on the facing page.

FINANCIAL

Although higher prices were obtained for all oil and gas sold during the year, as discussed below, the negative effect of higher provincial royalties, increase in taxes brought about by the November 18 Federal Budget and normal decline in production, resulted in only a modest increase in earnings.

Net earnings for the year ended December

31, 1974 were \$450,000 or 23¢ per share, compared to a restated \$432,000 or 22¢ per share for 1973. The restated earnings for 1973 give effect to the adoption of the deferred income tax method of accounting on January 1, 1974. This resulted in a reduction in earnings in 1974 of \$315,000 (16¢ per share) and in 1973 of \$286,000 (15¢ per share).

PRODUCTION

Average daily production rates for the year before royalty deductions were 698 barrels of oil and gas liquids and 7,466 MCF of gas, compared to 775 barrels and 7,984 MCF in 1973. Commencing 1974, the Company changed its method of reporting production statistics from net after deduction of all royalties to the Company's share of gross before deduction of all royalties. The 1973 production has been restated to reflect this change.

By agreement between the Federal and Provincial Governments, the wellhead price of crude oil in Western Canada was increased from an average of \$3.80 per barrel

to an average of \$6.50 per barrel effective April 1, 1974. As a result, the average price received by the Company for the year was approximately 80% higher than for 1973. In addition, the average price received by the Company for natural gas increased 25% as a result of price redetermination with gas purchasers. However, the provincial governments raised royalties to the extent that average royalties paid on crude oil by the Company during 1974 increased by approximately 175%. These higher royalties, combined with the effects of new Federal income tax legislation has, in most cases, more than offset the effect of the improved prices.

EXPLORATION AND DEVELOPMENT

Drilling

During the year, the Company participated in the drilling of 23 gross (4.61 net)

wells, resulting in 2 oil (.28 net) wells and 5 gas (1.52 net) wells. The following is a summary of wells drilled:

		Oil		Gas		Abandoned		1974 Total		1973 Total	
		Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
ALBERTA	Exploratory	2	.28	3	1.01	12	2.16	17	3.45	13	2.44
	Development . . .	—	—	1	.50	2	.60	3	1.10	5	1.55
BRITISH COLUMBIA	Exploratory	—	—	—	—	—	—	—	—	1	1.00
	Exploratory	—	—	1	.01	2	.05	3	.06	—	—
ARCTIC											
	TOTAL	2	.28	5	1.52	16	2.81	23	4.61	19	4.99

Arctic Islands (See map)

During 1974 Panarctic Oils Limited drilled 5 wells on or adjacent to the Sabine Peninsula of Melville Island, the results of which directly affected the Company's acreages in which it holds interests varying from .4725% to 3.15%.

Of the 2 wells located on the Drake Point structure, the deep Drake test located 2,000 feet from the original gas discovery was drilled to a depth of 17,766 feet, plugged back to the Drake Point gas sand, and capped for future use. The Panarctic Drake E-78 well, drilled in May, 1974, was located on the north flank of the Drake Point anticline on the extreme eastern edge of the Sabine Peninsula. The well encountered a good gas bearing sand development which extended the known Drake Point gas accumulation in this direction.

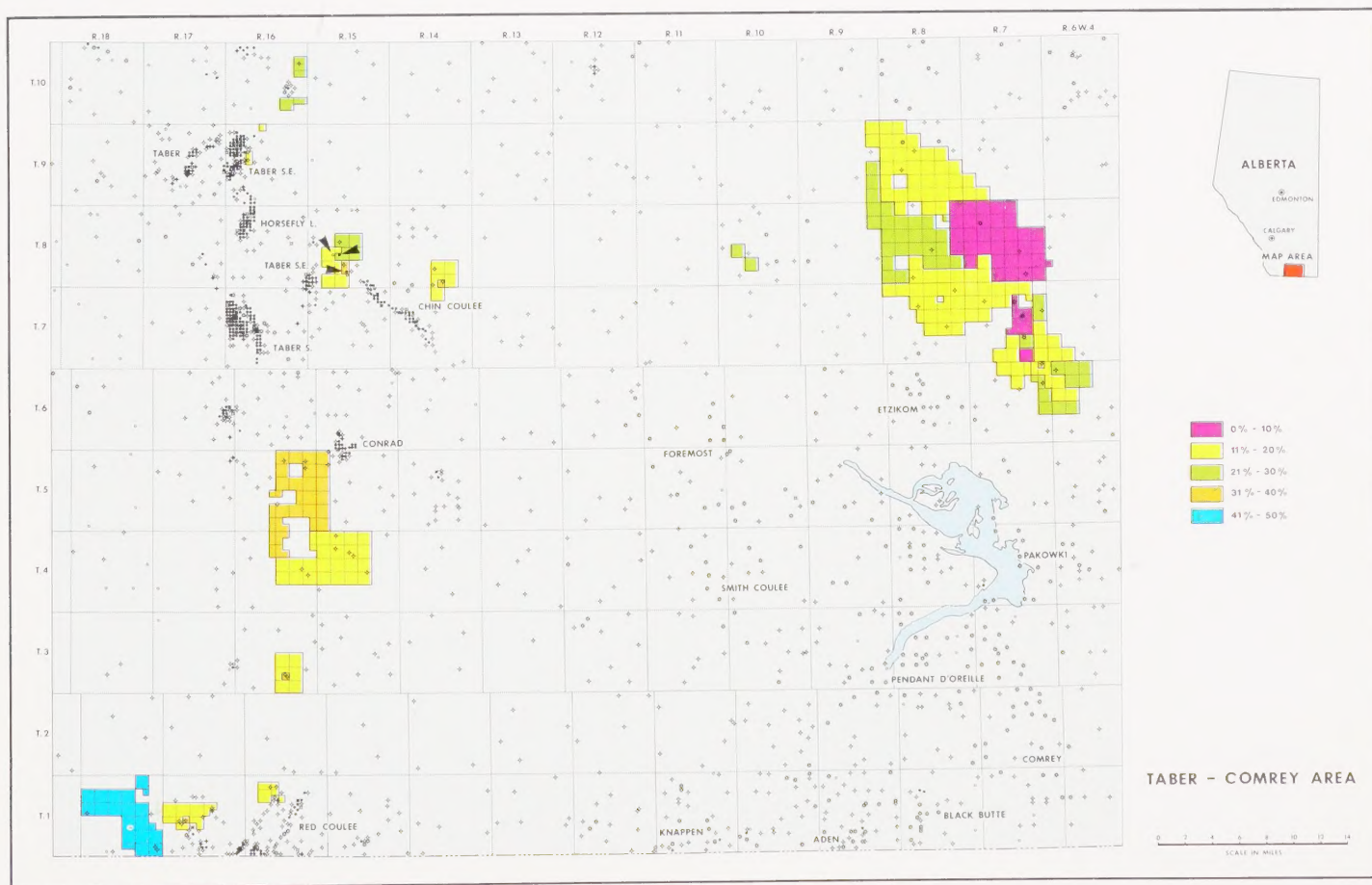
The Hecla N-52 well, located 8 miles offshore on the west of the Sabine Peninsula, encountered gas which substantially expanded the proved area of the Hecla accumulation. Three wildcat wells were drilled

on the Company's acreage on the Sabine Peninsula and were abandoned.

Panarctic is currently drilling a 14,000 foot test at Chads Creek on the west side of Sabine Peninsula on lands in which the Company and British Columbia Oil Lands Ltd. ("BCOL") each have a 3.15% interest. Panarctic East Drake I-55 is currently drilling 7 miles offshore east of the Drake Point gas field in an attempt to further expand the known gas accumulation in this direction. The Company and BCOL will each have a .7875% interest in the well and in the lands on which the well is located. Other onshore wells to further delineate the Drake Point gas accumulation are under consideration.

Southern Alberta (See map)

The Company holds varying interests in 165,920 gross acres in Southern Alberta. During the year under review, eleven wells were drilled in the Taber-Comrey area, which resulted in two oil discoveries and one gas well. Further wildcat and development drilling is being considered.



PETROLEUM AND NATURAL GAS RIGHTS

At December 31, 1974, the Company owned interests in 3,788,650 gross (398,935 net) acres compared to 3,567,303 gross (391,821 net) acres at the end of the preceding year, details as follows:

Area	Leases		Reservations Permits & Licences		Total		Net Carried Interests		Gross Royalty Acres
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	
Canadian Arctic	102,493	3,227	2,295,225	91,017	2,397,718	94,244	—	—	—
Banks Island	—	—	402,593	12,680	402,593	12,680	—	—	—
Northwest Territories ..	—	—	—	—	—	—	—	—	18,021
Alberta	389,090	113,620	395,437	96,672	784,527	210,292	1,920	480	18,709
British Columbia	1,038	682	—	—	1,038	682	—	—	—
Manitoba	73,727	21,237	—	—	73,727	21,237	—	—	—
Saskatchewan	80,167	50,424	48,880	9,376	129,047	59,800	—	—	322,116
TOTAL	<u>646,515</u>	<u>189,190</u>	<u>3,142,135</u>	<u>209,745</u>	<u>3,788,650</u>	<u>398,935</u>	<u>1,920</u>	<u>480</u>	<u>358,846</u>

The land-holdings of British Columbia Oil Lands Ltd. (35% owned) at December 31, 1974, increased over the previous year to 2,831,735 gross (111,404 net) acres from 2,632,260 gross (107,709 net) acres, details as follows:

Area	Leases		Reservations Permits & Licences		Total		Net Carried Interests	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Canadian Arctic	102,493	3,228	2,295,225	91,017	2,397,718	94,245	—	—
Banks Island	—	—	402,593	12,680	402,593	12,680	—	—
Alberta	5,440	488	5,600	933	11,040	1,421	—	—
British Columbia	20,384	3,058	—	—	20,384	3,058	151,703	30,570
TOTAL	<u>128,317</u>	<u>6,774</u>	<u>2,703,418</u>	<u>104,630</u>	<u>2,831,735</u>	<u>111,404</u>	<u>151,703</u>	<u>30,570</u>

On Behalf of the Board.

D. D. Barkwell,
President.

Calgary, Alberta,
April 4, 1975.

CONSOLIDATED STATEMENT OF EARNINGS

for the years ended December 31, 1974 and 1973

	1974	1973
REVENUE		(Note 1)
Oil and gas sales	\$ 609,000	\$ 522,000
Royalties	665,000	654,000
Interest	152,000	84,000
	<u>1,426,000</u>	<u>1,260,000</u>
EXPENSES		
Production	160,000	144,000
General and administrative	97,000	51,000
Depletion	354,000	284,000
Depreciation	50,000	63,000
	<u>661,000</u>	<u>542,000</u>
EARNINGS BEFORE INCOME TAXES	765,000	718,000
DEFERRED INCOME TAXES (Note 1)	315,000	286,000
NET EARNINGS	<u>\$ 450,000</u>	<u>\$ 432,000</u>
NET EARNINGS PER SHARE	<u>\$.23</u>	<u>\$.22</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the years ended December 31, 1974 and 1973

	1974	1973
RETAINED EARNINGS AT BEGINNING OF YEAR,		
as previously reported	\$5,793,000	\$5,075,000
Adjustment resulting from retroactive adoption of		
tax allocation accounting (Note 1)	1,605,000	1,319,000
BALANCE AT BEGINNING OF YEAR, as restated	4,188,000	3,756,000
Net earnings	450,000	432,000
BALANCE AT END OF YEAR	<u>\$4,638,000</u>	<u>\$4,188,000</u>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for the years ended December 31, 1974 and 1973

	1974	1973
SOURCE OF WORKING CAPITAL		(Note 1)
Operations		
Net earnings	\$ 450,000	\$ 432,000
Charges not requiring working capital	719,000	633,000
Working capital generated from operations	1,169,000	1,065,000
APPLICATION OF WORKING CAPITAL		
Property, plant and equipment	1,142,000	531,000
INCREASE IN WORKING CAPITAL	<u>\$ 27,000</u>	<u>\$ 534,000</u>

CONSOLIDATED BALANCE SHEETS

as at December 31, 1974 and 1973

Assets

	<u>1974</u>	<u>1973</u> (Note 1)
CURRENT ASSETS		
Cash and short-term deposits	\$1,690,000	\$1,751,000
Accounts receivable	293,000	202,000
Drilling and other deposits	52,000	52,000
	<u>2,035,000</u>	<u>2,005,000</u>
INVESTMENT IN BRITISH COLUMBIA		
OIL LANDS LTD., at cost (Note 2)	<u>2,009,000</u>	<u>2,009,000</u>
PROPERTY, PLANT AND EQUIPMENT, at cost		
(Notes 1 and 3)	7,727,000	6,585,000
Accumulated depletion and depreciation	2,489,000	2,085,000
	<u>5,238,000</u>	<u>4,500,000</u>
	<u><u>\$9,282,000</u></u>	<u><u>\$8,514,000</u></u>

Auditors'

TO THE SHAREHOLDERS
PRAIRIE OIL ROYALTIES COMPANY, LTD.

We have examined the consolidated balance sheets of Prairie Oil Royalties Company, Ltd. and subsidiary company as at December 31, 1974 and 1973 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Liabilities

	<u>1974</u>	<u>1973</u>
CURRENT LIABILITIES		(Note 1)
Accounts payable	\$ 188,000	\$ 185,000
DEFERRED INCOME TAXES (Note 1)	<u>1,920,000</u>	<u>1,605,000</u>

Shareholders' Equity

CAPITAL STOCK		
Authorized		
2,500,000 shares of \$1 par value		
Issued		
1,961,520 shares	1,962,000	1,962,000
CONTRIBUTED SURPLUS	574,000	574,000
RETAINED EARNINGS	<u>4,638,000</u>	<u>4,188,000</u>
	<u>7,174,000</u>	<u>6,724,000</u>
Signed on behalf of the Board:		
D. D. Barkwell, Director		
W. A. Loucks, Director		
	<u>\$9,282,000</u>	<u>\$8,514,000</u>

Report

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and 1973 and the results of their operations and the changes in their financial position for the years then ended, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in accounting for income taxes as explained in Note 1 to the consolidated financial statements, on a consistent basis.

Calgary, Alberta
February 7, 1975

RIDDELL, STEAD & CO.
Chartered Accountants

Notes to 1974 and 1973 Consolidated Financial Statements

NOTE 1 ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company's wholly-owned subsidiary, Prairie Oil Exploration Ltd., which was inactive during 1974 and 1973.

Depletion

The companies follow the practice of capitalizing both productive and non-productive costs related to the exploration for and the development of oil and gas reserves, and of depleting such costs on a composite unit of production method based on total estimated recoverable reserves.

Depreciation

Depreciation of plant and equipment is being provided at rates which will amortize original costs over the estimated useful lives of the respective assets.

Income Taxes and Change in Accounting Policy

The companies follow the tax allocation method of accounting under which the income tax provision is based on the earnings reported in their accounts. Under this method the companies provide for deferred income taxes to the extent that income taxes otherwise payable are eliminated by claiming exploration and development costs and capital cost allowances in excess of the related depletion and depreciation provisions reflected in their accounts.

Prior to January 1, 1974 the companies had provided only for the taxes payable on their taxable income for the year.

This change in accounting had the effect of decreasing net earnings for the years ended December 31, 1974 and 1973 by \$315,000 (\$.16 per share) and \$286,000 (\$.15 per share), respectively. The 1973 accounts have been restated from those previously reported to give effect to this accounting change.

Total income tax expense for the year ended December 31, 1974 includes the effects of the income tax changes proposed in the November 18, 1974 Federal Budget and the announced "Alberta Petroleum Exploration Plan of December, 1974" and the effects of the changes in tax policies announced by the provinces of Saskatchewan and British Columbia. These proposed income tax changes have not yet been passed by the respective parliamentary bodies.

NOTE 2 INVESTMENT

The investment in British Columbia Oil Lands Ltd. consists of 333,531 shares representing approximately 35% of that company's outstanding capital stock, with an approximate market value of \$.5 million on February 7, 1975. Because of the number of shares of British Columbia Oil Lands Ltd. involved, the market value is not necessarily indicative of the amount that could be realized on sale.

NOTE 3 PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Depletion and Depreciation	Net
December 31, 1974			
Oil and gas properties	\$7,049,000	\$2,003,000	\$5,046,000
Oil and gas production equipment	678,000	486,000	192,000
	<u>\$7,727,000</u>	<u>\$2,489,000</u>	<u>\$5,238,000</u>
December 31, 1973			
Oil and gas properties	\$5,955,000	\$1,649,000	\$4,306,000
Oil and gas production equipment	630,000	436,000	194,000
	<u>\$6,585,000</u>	<u>\$2,085,000</u>	<u>\$4,500,000</u>

NOTE 4 DIRECTORS' FEES

General and administrative expenses include directors' fees of \$4,000.

Directors:

Donald D. Barkwell Calgary, Alberta

Executive Vice President
Canadian Industrial Gas & Oil Ltd.

Edward A. Galvin Calgary, Alberta

Chairman of the Board & President
Canadian Industrial Gas & Oil Ltd.

Wilfrid A. Loucks Calgary, Alberta

Vice-President, Finance & Services
Canadian Industrial Gas & Oil Ltd.

Frederick A. McKinnon Calgary, Alberta

President
BP Exploration Canada Limited

Clifford A. Rae Calgary, Alberta

Barrister & Solicitor
Macleod Dixon,
Barristers & Solicitors

David M. Tyerman, Q.C. Regina, Saskatchewan

Barrister & Solicitor
MacPherson, Leslie & Tyerman
Barristers & Solicitors

Officers:

Donald D. Barkwell *President*

Executive Vice President
Canadian Industrial Gas & Oil Ltd.

Wilfrid A. Loucks *Vice-President*

Vice-President, Finance & Services
Canadian Industrial Gas & Oil Ltd.

David M. Tyerman, Q.C. *Secretary*

Barrister & Solicitor
MacPherson, Leslie & Tyerman,
Barristers & Solicitors

A. Kenneth Davies *Treasurer*

Treasurer
Canadian Industrial Gas & Oil Ltd.

Laurence A. Sills *Assistant Secretary*

Secretary
Canadian Industrial Gas & Oil Ltd.

THE ANNUAL GENERAL MEETING of the Company will be held on Tuesday, April 29, 1975 at 9:00 o'clock in the forenoon, Mountain Daylight Time, in the Board Room of Canadian Industrial Gas & Oil Ltd., 12th Floor, 640-8th Avenue S.W., Calgary, Alberta, Canada T2P 1G9.

Executive Office:

640 Eighth Avenue S.W., Calgary, Alberta T2P 1G9

Registered Office:

2236 Albert Street, Regina, Saskatchewan S4P 2V4

Auditors:

Thorne Riddell & Co., Calgary, Alberta

Registrars & Transfer Agents:

Canada Permanent Trust Company,
Regina, Saskatchewan, and Toronto, Ontario

Morgan Guaranty Trust Company of New York,
New York, N.Y.

Stock Exchange Listings:

Toronto Stock Exchange, Toronto, Ontario
American Stock Exchange, New York, N.Y.

PRAIRIE OIL ROYALTIES COMPANY, LTD.
ANNUAL REPORT 1974

LITHOGRAPHED IN CANADA

CONSOLIDATED STATEMENT OF EARNINGS

For the Six Months Ended June 30
(unaudited)

	<u>1974</u>	<u>1973</u> (Restated)
SALES AND OTHER REVENUE	\$716,000	\$591,000
COSTS AND EXPENSES		
Field operating expenses	71,000	79,000
General and administrative expenses	51,000	26,000
Depletion	102,000	123,000
Depreciation	25,000	32,000
	<u>249,000</u>	<u>260,000</u>
EARNINGS BEFORE TAX	467,000	331,000
Deferred income tax	178,000	132,000
NET EARNINGS	<u>\$289,000</u>	<u>\$199,000</u>
EARNINGS PER SHARE		
Cash Earnings	30¢	25¢
Net Earnings	15¢	10¢

CONSOLIDATED STATEMENT OF CHANGE IN FINANCIAL POSITION

For the Six Months Ended June 30
(unaudited)

	<u>1974</u>	<u>1973</u> (Restated)
SOURCE OF WORKING CAPITAL		
Operations		
Net earnings	\$289,000	\$199,000
Charges not requiring working capital	305,000	287,000
Working capital generated from operations	<u>594,000</u>	<u>486,000</u>
APPLICATION OF WORKING CAPITAL		
Property, plant and equipment	581,000	197,000
INCREASE IN WORKING CAPITAL	<u>\$ 13,000</u>	<u>\$289,000</u>

Signed on behalf of the Board

D. D. Barkwell, Director

W. A. Loucks, Director

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PRAIRIE OIL ROYALTIES
COMPANY, LTD.

INTERIM REPORT

June 30, 1974

TO THE SHAREHOLDERS:

DRILLING

In the six months ended June 30, 1974, the Company participated in the drilling of 12 gross wells (2.40 net), of which 1 (.14 net) was a gas well, 2 (.72 net) were oil wells, and 9 (1.54 net) were dry and abandoned.

ARCTIC ISLANDS

On the Sabine Peninsula of Melville Island, Panarctic Oils Ltd. recently completed Panarctic POR Homestead Drake E-78 on the north side of the Drake Point anticline. A very good development of gas bearing Borden Island sand was encountered in the well which, on drillstem test, displayed excellent producing characteristics, comparable to the best so far encountered in the field. The E-78 well is located three miles northeast of the Drake F-16 well and the presence of gas at this location expands considerably the established field limits as well as the magnitude of proven reserves. The Company has a .4725% interest in this well.

Also on the Sabine Peninsula, Panarctic Homestead POR North Sabine H-49 was recently abandoned at a total depth of 12,500 feet after failing to find hydrocarbons in commercial quantities. The Company has a 3.15% interest in the well and in the lands on which the well is located.

SASKATCHEWAN GOVERNMENT BILL NO. 42

The hearing of the action brought by Canadian Industrial Gas & Oil Ltd. in the Saskatchewan courts to determine the validity of that Province's legislation, imposing a mineral income tax on freehold producing tracts

and a royalty surcharge on crown producing leases, commenced on July 29. The result of the action is not yet known.

FINANCIAL

Net earnings for the six months ended June 30, 1974, were \$289,000 (15¢ per share) compared with \$199,000 (10¢ per share) restated for the same period last year.

Effective January 1, 1974, the Company adopted full deferred tax accounting which reduced the first half net earnings by \$178,000 (9¢ per share). The figures for the same period of 1973 have been re-stated for comparison purposes to reflect the additional income tax, resulting in a reduction of \$132,000 (8¢ per share) in the first half net earnings reported last year.

Cash flow or working capital generated from operations was \$594,000. (30¢ per share) compared with \$486,000 (25¢ per share) last year. Capital expenditures on oil and gas exploration for the six months were \$581,000 compared with \$197,000 for the equivalent period last year.

The proposed federal budget introduced in Parliament prior to the recent election includes significant changes in income tax legislation for the oil and gas industry. This legislation, if implemented, combined with the recent provincial legislation pertaining to royalties would have a serious and detrimental impact on the oil and gas industry. After-tax proceeds to the producer would be less than the cost of replacing production and, in some cases, less than the historical unit cost of finding and developing existing reserves. It is hoped that the re-

cently elected Federal majority Government will work with the various provincial governments and arrive at some compromise whereby there is incentive and encouragement to conduct oil and gas exploration.

On behalf of the Board



D. D. Barkwell,
President.

Calgary, Alberta.
August 13, 1974.